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SUBJECT: DRC RESPONSE TO USITC STUDY ON SUB-SAHARAN AFRICA

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11. (U) Background and Overview. Inadequate physical infrastructure in the Democratic Republic of Congo (DRC), a country comprising a land area of 2,345,000 square kilometers, represents a key constraint for the country's economic development and export competitiveness. The Government of the DRC (GDRC) has made infrastructure development and rehabilitation a priority as the country begins to recover following more than ten years of civil war and literally decades of mismanagement, negligence, and a lack of clear public policies in the infrastructure sector. International donors and a recently concluded multi-billion dollar Sino-Congolese agreement will provide critically needed resources for infrastructure development. However, given the country's enormous needs, rehabilitation and development of key infrastructure, including roads, energy, rail and river transport, will remain a constraint in the short-term for the competitiveness and production of key products both for domestic consumption and export.

12. (U) While the majority of the DRC's population remains engaged in subsistence agriculture, the country is endowed with enormous natural resources, including a variety of minerals (copper, cobalt, diamonds, gold, coltan, zinc, and other base metals), petroleum (currently exporting 23,000 barrels per day), and timber. The DRC also has the world's most promising hydroelectric production potential. The planned rehabilitation of the existing hydroelectric production turbines at Inga I and Inga II, along with the larger Grand Inga Dam project, would enable the DRC to become a major producer supplying needs across Africa (ref D). End Background and Overview.

#### Current Physical Conditions

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#### 13. (U) A) Internal Transportation Networks: Road, Rail, Waterway

The national road network totals 152,400 kilometers, including 145,000 kilometers of national, regional and provincial roads, and 7,400 kilometers of urban roads. 98 percent of DRC roads are unpaved, whereas only 2,801 kilometers are tarred. The road network includes 1,965 bridges totaling 25,130 meters, and 187 ferries (trail-ferry, motor or canoe). The DRC established with donor assistance a priority network of 29,281 kilometers in 1990 called the "National Ring." The network includes roads that link the capitals of the DRC's 11 Provinces (10,652 kilometers) and other roads deemed necessary to support country integration.

14. (U) The national rail system is operated by the government-owned Societe Nationale de Chemins de Fer Congolais (SNCC) in the east of

the country and the government-owned Office National des Transports (ONATRA) in the west and north. There are currently 4 different networks of rail lines, totaling 4,700 kilometers. The first network provides a connection between the port of Matadi and Kinshasa. The second connects points in Southern Africa and the Lake Tanganyika areas with Lubumbashi. A third network links Kisangani to Ubundu, as a means to bypass Stanley Falls on the Congo River. The final network is located in the Uele area (northeast). The four networks are not linked and use different gauges, most of which are narrower than the standard rail gauge used by Zambia and countries to the south.

15. (U) The South Katanga electric rail totals 1,000 kilometers and has gauges ranging from 0.6 meters to 1.067 meters. This southern network links the Katanga province and many of the major copper/cobalt mining companies to southern Africa through Zambia. The stretch of rail from Kisangani to Ubundu has a gauge of 1 meter, while the rest of this network measures up to 1.067 meters. The Kinshasa - Matadi Railway is 366 kilometers long, with a 1.067 meter gauge. Importers and exporters rely more heavily on trucks to carry containers between Kinshasa and Matadi due to the poor conditions and unreliability of this rail network.

16. (U) Waterways have traditionally been the principal means of transport for both goods and people within the DRC. The total length of waterways is estimated to be 15,000 kilometers, including the Congo River, its tributaries, and unconnected lakes. The 1,000-kilometer Kinshasa-Kisangani route on the Congo River, operated by river tugs pushing barges lashed together, is the longest and most utilized waterway. Tugs also bring timber downriver, 8 to 10 logs at a time floating and lashed together.

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Kinshasa, with 7 kilometers of river frontage occupied by wharfs and jetties, is the largest inland waterways port on the continent.

#### 17. (U) B) External Transportation Networks

Kinshasa is linked to Brazzaville by regular boat and ferry services that travel the 3.5 kilometers across the Congo River. Kinshasa is also connected to Bangui in the Central African Republic via the Ubangui River. Goma and Bukavu in Eastern DRC are connected with Rwanda through Lake Kivu and a land crossing at Goma-Gisenyi. Kasenga and Pweto in the DRC are connected to Nchelenge, Kashikishi and Kashiba in Zambia through the Lake Mweru system. Two small ports on the DRC side, Kisenye near Bunia and Mahadi Port in the north, link to the Ugandan ports of Butiabo and Pakwach.

#### 18. (U) C) Other Infrastructure: Energy

The DRC's extensive potential hydroelectric capacity is estimated to be 100,000 MW. The total capacity of the turbines currently installed is approximately 2,500 MW, but actual production is 600-700 MW because two-thirds of the turbines are not functioning. Only a small percentage of the DRC's population, concentrated in urbanized areas, has access to state-produced energy. In Kinshasa, provision of electricity is sporadic, and the state energy production agency (SNEL) is badly in need of restructuring. The DRC mining sector alone requires 2,100 MW, representing 84 percent of current generating capacity, to meet its energy needs. As a result, many economic operators rely on generators of 300 to 1,250 KVA, increasing operational costs by 10 to 15 percent. Projected repairs should allow Inga turbines to work at full capacity (1,774 MW) by 2010. DRC exports hydroelectricity to its neighbor, Republic of Congo, along a 220-kilovolt (KV) connection. The interconnection supplies nearly one third of the electricity consumed in Congo-Brazzaville. Power from Inga is also transmitted to the Zambian grid along a 500-KV DC line from Inga to Kolwezi in Southern DRC, and a 220-KV line from Kolwezi to Kitwe in northern Zambia. South Africa also imports DRC's energy output through the Southern Africa Power Pool grid.

Associated Infrastructure Service Providers

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¶9. (U) DRC freight forwarders are privately-owned companies that have been set up by importers. The market has been opened to competition, falling into two categories: domestic and international freight forwarders. The international customs brokers and freight forwarders are traditionally larger companies, but the opportunities to circumvent the lawful process for customs have allowed entry into the market by several smaller organizations (ref E).

¶10. (U) The government operates all ports, railways, and waterways, resulting in a high level of mismanagement and limited maintenance. The DRC railway parastatal company, SNCC, manages the eastern infrastructure backbone of the DRC economy, while the national port company, Office National de Transport (ONATRA), manages that of western DRC including Matadi, Boma, Banana, Kinshasa, Mbandaka, and Kisangani ports. Roads are under the authority of the national Office des Routes (OdR) and the DRC Roads and Drainage Agency (Office des Voiries et Drainage) through the Ministry of Infrastructure, Public Works and Reconstruction. Production and distribution of energy is through the State Energy Production Agency (SNEL).

¶11. (U) DRC customs procedures remain highly bureaucratic. For example, more than fifteen government procedures are required to clear customs at Matadi Port. However, the GDRC has streamlined the process at some international airports (Kinshasa), ports (Kinshasa), and land borders (Kasumbalesa in Katanga). ONATRA has been trying to establish a new "one-stop-shop" for customs clearance, but importers report that corruption prevents the new system from taking hold.

#### Efforts to Improve Infrastructure

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¶12. (U) In October 2006, then-candidate Joseph Kabila announced that as president his economic development plan would focus on progress in "cinq chantiers" (literally "five work areas") or prioritized sectors: education, health, infrastructure, water and electricity, and job creation. Since then, the GDRC has begun to establish more specific and coherent policies. The GDRC's road transport policy focuses on three areas: construction of new asphalted roads; the resettlement of traffic on non asphalted roads; and the protection and the maintenance of existing road networks under the National

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Fund for Road Maintenance (FONER). International donors engaged in road rehabilitation include the World Bank, the European Union, the African Development Bank, Kuwait, Ex-Im Bank, and Belgium.

¶13. (U) Waterways and related infrastructure are to be rehabilitated as part of the restructuring of various state-owned companies including ONATRA and SNCC, an effort managed by the GDRC Ministry of Portfolio and supported by the World Bank. The rehabilitation of the rail network and port infrastructure aims to promote trade between the DRC and regional trade partners.

¶14. (U) In the energy sector, the GDRC has launched bidding procedures in order to raise funds for Inga I and Inga II hydroelectric turbine rehabilitation. SNEL has also entered into several joint ventures with private sector companies that fund hydroelectric power generation projects in exchange for a guaranteed supply of electricity to their facilities.

¶15. (U) A multi-billion dollar agreement concluded in early 2008 with a consortium of Chinese companies will create a joint venture to exploit mining resources and develop Congolese infrastructure. The project will be financed by a USD 9 billion loan arranged by the consortium. Though not all details have been made public, the GDRC announced that it will exchange over 8 million tons of copper and over 200,000 tons of cobalt for an estimated USD 6 billion in Chinese-funded infrastructure projects, including roads, railway, universities, hospitals, housing and clinics. The remaining USD 3 billion will fund necessary construction projects to support the mining joint venture.

#### Impact on Export Competitiveness

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¶16. (U) The poor quality of the DRC's infrastructure has a direct impact on both the quality and supply of locally produced products. The majority of DRC exporters regularly experience increased operational costs as a result of inadequate infrastructure.

¶17. (SBU) A) Natural Rubber

According to Mr. Robert Ducarme, a Belgian who has spent thirty years exporting natural rubber from the North Kivu Province (specifically from Beni, 75 kilometers from Uganda), costs of production have doubled during the last decade. The lack of transport infrastructure has required his operations to both invest in road infrastructure and purchase generators. These additional production costs have lowered his competitiveness compared with other regional producers such as Cameroon. He also said producers of natural rubber in eastern DRC must export through the port of Mombasa, Kenya, and therefore have higher operational costs than western operations close to the port of Matadi.

¶18. (U) B) Mining

The mining companies in the Katanga province, primarily copper and cobalt operations, have access to the DRC's most extensive road and rail links for export through Zambia. The companies are still required to build their own road network, linking it to the main roads, and invest heavily in a reliable supply of energy. The mining companies in the Kivus (gold, cassiterite, coltan, etc.) face the challenges of both very poor infrastructure and the on-going violence between several armed groups. Operators in the Kasai provinces, where most of the diamond mining is located, rely on air traffic to bring in supplies and export the diamonds. Companies in all provinces of the DRC must bring in the majority of their own equipment and supplies for the construction and management of mining operations. Though high prices of commodities over the last few years have supported investments in the DRC, the additional costs and delays in shipping, transport, and customs clearance have a significant negative impact on the ability to remain competitive.

¶19. (U) C) Agriculture

The Congolese economy is largely rural, informal, and agricultural. Agriculture accounted for approximately 42% of GDP in 2007, though its share has been gradually declining. Despite extensive fertile land and the potential for the DRC to serve as a breadbasket for Central Africa, agricultural production remains largely based on subsistence farming, with little formal commercialized activities. Collapsed infrastructure, particularly key road links between producers and clients, lack of investment, limited access to credit, inefficient land use, and a difficult policy environment have reduced the production and marketing of key agricultural products.

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